

The logo for Seeking Alpha, with the text 'Seeking Alpha' in white and a gold Greek letter alpha symbol to the right, all on a dark red background.

Albemarle Corp. Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

[Operator Instructions].

Your first question comes from the line of P.J. Juvekar from Citi please proceed.

P.J. Juvekar - Citigroup

Yes, Hi good morning.

Richard J. Diemer, Jr. - Senior Vice President and Chief Financial Officer

Hi good morning P.J.

P.J. Juvekar - Citigroup

Wanted to get to the bottom of slim retardant issue. We met three weak quarters of slim retardant volumes, can you just talk about what are the operation effects what are the current inventories and is there a demand shift between brominated or non-brominated retardants and what's going on?

John M. Steitz - Executive Vice President and Chief Operating Officer

P.J. its John Steitz. Let me try to address your question. The best thing I can do is kind of compare it back 2years ago to third quarter 2005 where we saw a similar decrease in demand. So when we go out and talk to our customer base weather it be in electronics industry, the connectors industry the print circuit board industry we're hearing very similar descriptions of what has been happening. Through the course of FY06, we saw strong demand through the course of the whole year. And compared to FY05, especially a third quarter of FY05, it was down fairly markedly.

FY06 was very strong even though end consumer markets were told by our customers were very weak in the second half, so there was an in hand build up of inventories at their level. So we feel to match that and we believe that through July and August, we finally worked through what was the big inventory build that's curled over last 18 months.

So if I compare the three quarters, year-over-year we had in FY05 a relatively weak July and August with a very strong September. In FY06 we had three consecutive months in that quarter, third quarter of FY06 very strong across the board. And then in FY07, we had a very weak July and August, which is similar to a July and August of FY05 but we had record sales and record volumes in September.

We're starting out October, I would say moderately strong but November looks very strong.

So, we are getting, we are cautiously optimistic we turn the corner here. We feel our inventory levels are appropriate. We've had a fire up our tetrabrom plants in the last couple of weeks and we are pressing forward on manufacturing to meet what we see a recent spike in demands. So that's, that feels good. That did take a toll in earnings no question in third quarter of FY07 as we moderated our plants back might get my estimates that's those about \$0.05 in the quarter.

P.J. Juvekar - Citigroup

So we are getting window getting in June, July and what are the inventories now?

John M. Steitz - Executive Vice President and Chief Operating Officer

Our inventories?

P.J. Juvekar - Citigroup

Yes. Is that what you are talking about, your own inventories?

John M. Steitz - Executive Vice President and Chief Operating Officer

Yes, our own inventories have gone down in July and August despite the weak sales and in September we obviously had inventory to meet the spike there but in October now we got to produce the increasing demand. So I am hoping for sequential improvements and moderate sequential improvements.

Richard J. Diemer, Jr. - Senior Vice President and Chief Financial Officer

P.J. this is Rich, the inventory is obviously up on a consolidated basis with the full year and even for us since the last quarter that we reported that the bulk of that increase is in metals pricing which is catalysts and is an increased demand for catalysts order. So you don't want to mix some of those big orders that are coming through. The other thing that's significantly impacting our inventory is OpEx, with our inventories up we have over in Europe so and there again that's substantially catalyst related.

P.J. Juvekar - Citigroup

And John can you talk about your operating rates in bromine wells either in Jordan or Arkansas and then you said your petro pump plant back up so what are operating rates overall in flame retardants?

Mark C. Rohr – President and Chief Executive Officer

Yes I, in Arkansas P.J. I'd say it was in the 50% to 60% range. I mean we had done follow back fairly dramatically as the biggest volume sync for our bromine in Arkansas as primarily flame retardants. The utilization in Jordan was a little higher than that mostly built on some reasonably strong clear branch volumes in the Middle East.

P.J. Juvekar - Citigroup

Are you raising those operating rates now?

Richard J. Diemer, Jr. - Senior Vice President and Chief Financial Officer

Pardon me.

P.J. Juvekar - Citigroup

Are you raising those operating rates now?

Richard J. Diemer, Jr. - Senior Vice President and Chief Financial Officer

Yes, we are. We are increasing them to meet the increased demand flame retardants. Now where they are running today, no they are not near 100% but they are I'd say more than the 70% range.

P.J. Juvekar - Citigroup

Okay, that's all from me, thank you.

Mark C. Rohr – President and Chief Executive Officer

Thank you P.J.

Operator

Your next question comes from the line of Laurence Alexander from Jeffery's, please proceed.

Laurence Alexander – Jefferies & Co.

Good morning this is [inaudible].

John M. Steitz – Executive Vice President and Chief Operating Officer

I'm sorry it's breaking up, is it Lucy?

Lucy – Jefferies & Co.

Yes it's Lucy for Laurence.

John M. Steitz – Executive Vice President and Chief Operating Officer

Thanks you, Lucy.

Lucy – Jefferies & Co.

I just actually have another question following up on the fine chemicals. Could you quantify the earnings impact of the inventory reduction in the bromine team?

John M. Steitz – Executive Vice President and Chief Operating Officer

Yes that was about \$0.02, in the range of \$0.02 in the third quarter.

Lucy – Jefferies & Co.

Okay, great. And just another question. Is there a similar impact on polymer additives?

John M. Steitz – Executive Vice President and Chief Operating Officer

Yes, it was about double that there however, it was in \$0.04 to \$0.05 range.

Lucy – Jefferies & Co.

And what is the status of [inaudible] in China?

Mark C. Rohr – President and Chief Executive Officer

This is Mark, let me try to take that. What we see in China is the government very actively promoting, industry leaving regulations in all of those areas where, the general public is exposed to potential of far sakes. So in hotels and office buildings, the material they make to ship offshore all those things were in the absence meet far setting standards of, were international in nature. The best plenty of goods however are not yet familiar tried in China and there seems to be a very conservative effort on part of the government to change that.

Lucy – Jefferies & Co.

Okay. Thank you very much.

John M. Steitz – Executive Vice President and Chief Operating Officer

Thanks Lucy for this call.

Operator

Your next question comes from the line of Robert Koort from Goldman Sachs, please proceed.

Robert Koort – Goldman Sachs & Co.

Thanks very much, good morning.

Mark C. Rohr – President and Chief Executive Officer

Good morning, hi Rob good morning.

Robert Koort - Goldman Sachs

I was wondering if you could tell me what, if there is any standard behavior around catalyst pricing in free buying ahead of price hikes so what you do to minimize that?

Mark C. Rohr – President and Chief Executive Officer

Let me give this a shot Bob, in most cases the inventory here is pretty tight so you make it to deliver it, and frankly we don't see very much activity there to buy early in line of a price increase. There maybe some interest to cover deal but not to, [inaudible].

Robert Koort - Goldman Sachs

And remember, what effect is there if any from the volatility we've seen in refining margins over the last couple of years. I mean they have gone sky high and they crash and they gone back up and they come following a dramatically well or so. Do you see buying bigger does it change refinery runs that are going or is the industry in the U.S. at least pretty much full out regardless?

Mark C. Rohr – President and Chief Executive Officer

Yes, the industry in the U.S. is full out regardless I think today. It remains a question if you look up 3, 4, 5 years, margins pulled back. Does that impact the value add or upgrading heavy crude oil?

I'm not sure. But in the near term and certainly in the recent past we've not seen any impact in these markets.

Robert Koort - Goldman Sachs

And if I look out 3, 4 to 5 years Mark will the U.S. component of that business become somewhat more marginalized owing most of the discussion around growth and opportunities outside the U.S.? Or do you think it will continue to be at odds for the next wave of regulations in the U.S.?

Mark C. Rohr – President and Chief Executive Officer

Bob, the real growth, the new business growth is virtually well outside the U.S. plant. Middle East, India, China. Those kinds of places. Brazil, Venezuela.. So new volume is coming of new areas to the world. I expect refineries in the U.S. are going to compete in prosperity to maximize their income. And we see lot of enquiries on doing things like upgrading vacuum gas oil. So taking your medics and moving back to, towards, fuel can be used more readily than gasoline, diesel and things like that. So I don't necessarily think that we're going to see a fallout in the U.S. but the entry question growth is all off shore. The volume growth.

Robert Koort - Goldman Sachs

Thanks very much, next part.

Operator

Your next question comes from the line of James Shield from Deutsche bank, please proceed.

Richard J. Diemer, Jr. - Senior Vice President and Chief Financial Officer

Yes, on tetrabrom for a minute. Just to clarify. Are you indicating that October sales volumes have been tracking above September and your orders for November are also increasing and accelerating momentum there?

Yes that's what I tried to communicate James. So it looks sequentially like its improving and that kind of correlates with the IPC report that we get.

We've seen an increase in the book-to-bill ratio there as well.

James Shield – Deutsche Bank

Now that's going to be my next question. What is the book-to-bill right now?

John M. Steitz – Executive Vice President and Chief Operating Officer

We can take that, I think it was 1.07 I believe and that's just at the top of my head. I, we can get that and verify that.

James Shield – Deutsche Bank

Okay and then how about pricing in this area, are you seeing pricing discipline for the industry?

John M. Steitz – Executive Vice President and Chief Operating Officer

Yes, the answer to this question is yes. Overall in our entire polymer additives business we've seen year-over-year double digit pricing hold. And we've seen some reasonable high single digit sequential improvement. Specifically in the bromine flame retardant portfolio we've seen solid gains year-over-year and sequence on some I'd say moderate sequential improvement.

James Shield – Deutsche Bank

All right thank you very much.

John M. Steitz – Executive Vice President and Chief Operating Officer

I think we've got a number here for you on the book-to-bill ratio. No, we'll come back to you on that.

James Shield – Deutsche Bank

Appreciate it.

John M. Steitz – Executive Vice President and Chief Operating Officer

You bet.

Operator

Your next question comes from the line of Jeff Zekauskas from J.P Morgan, please proceed.

Jeff Zekauskas – J.P. Morgan

Hi good morning.

Richard J Diemer, Jr. – Senior Vice President and CFO

Good morning Jeff. Hi Jeff.

Jeff Zekauskas – J.P. Morgan

A few questions. Your working capital, are you above negative 120 so far this year and what's the source of that?

Unidentified Company Representative

I don't know about the negative 120. We tracked networking capital. But for 106 days I think is where we are and that principally because of raw materials, inflation and its also due to FX.

John M. Steitz - Executive Vice President and Chief Operating Officer

In a big picture sense, Jeff, we've seen inflation, inflationary impacts hit this to the tune of \$60 million or so and you've got some volume build on top of that, about \$30 million or so I think we're up net about a \$100 million. It's what I recall on that bromine unfortunately but. A lot of cost rolled through that based on the inflation that we see out there. We've also through this year, it's kind of crazy but we've had tremendous sales of catalysts at the end of each quarter so we have the sort of outstanding receivable balance that's much higher than it should be to make sure the way our business is going this year.

Jeff Zekauskas – J.P. Morgan

Okay that's helpful. Back to the polymer additive area. If you look at the volumes over a multi-year period of time, if you go back to, FY05, FY06 and now in FY07, there really hasn't been any growth in volumes in polymer additives if you net it out. If you go back and you include 2004 when you are up 19% and what you do is you get and in the previous year before that was up 2% but you get something like 2% volume growth, if we give you the benefit of the doubt in '04 and all of that is probably below the rate of the growth in the underlying plastic. So when you look at flame-retardants over a multi year period of time whether the fourth quarter turns up or not why does it seem that polymer additive growth seems slower than the growth in the underlying plastics?

Unidentified Company Representative

Well let me start that, if John kind of pop in here for just a minute. You followed us for a long time Jess. You've seen the sort of the thick [inaudible] over sales for this business and it tends to be broadly speaking, it tends to have this sort of stetiscope [ph] associated with it. We have, unbelievable volume growth in '99. 2000 kind of top range to see volumes shrink 30% for a couple of years then till we came out of that, so Y2K driven back in the 2012 top-line. So, if I look at, on that sequence I've probably got 10%, 20% growth in some period times and a modest 20% in some other period of times. So it's been very choppy and we have seen a lot of changes in this industry. There are a lot more phosphorus related flame retardants are being sold today including those that we expect to sell from the plant that's coming up there's been some shift to mineral flame retardants and we've seen a lot of volume growth on mineral basis over a period of time. So I guess it's a broad question you're answering. We've said historically that about 2X GDP because of plastics going in to consumer electronics have [inaudible] number I'll get something pretty close to that. Before this recent downturn but I need to check and we'll do that before this recent downturn. I need to check, and we'll do that and get back to you guys.

Unidentified Analyst

So, I mean all things being equal. Maybe you'll have a nice year in '08 given how weak 2007 has been.

Unidentified Company Representative

Possibly, that's the way it's been.

Unidentified Analyst

I guess, lastly I just want to be sure that I understood the tax rate explanation. In the quarter was there a \$0.03 benefit from the audit of 2006 taxes or a change in--?

Unidentified Company Representative

It's not the audit there Jeff because the IRS is not on top of it. With that sort of short delay its \$0.02 from Germany. So German tax rates down, its approximately \$0.03 and we went through and completed our tax return, you complete your '06 tax return in '07 and you do what is called a accrual to return adjustments. So to get that all in sync you threw up your obit books. So we had positives adjustments, they could be negative they can go either way but in this case they were positive adjustments so our books were brought in sync with the tax return that we filed.

Jeff Zekauskas - J.P. Morgan

Okay thank you very much.

Operator

Your next question comes from line of Kevin Mccarthy from Banc of America Securities. Please proceed.

Kevin Mccarthy – Banc of America Securities

Yes good morning, Mark. The raw material inflation that you reference, can you give us an idea of how much that if any, is passed through automatically quoting your contract divisions and how much of you'll need to address via price increases and/or cost reductions.

Mark C. Rohr – President and Chief Executive Officer

About \$30 million is mildly inflation of the 80% or so we're having this year and we work to make sure that'll pass through. So if you look at the other balance of that, the other \$50 million or so we got a 5 coded, call waiting getting that past our customers.

Kevin Mccarthy – Banc of America Securities

Okay and just to clarify that that was in FY08 versus FY07 versus number?

Mark C. Rohr – President and Chief Executive Officer

That's FY07 versus FY06 and when we look at next year, it's probably not that generous on how we, I've got as much as volume inflation pricing we're seeing \$18 million overall and some of that, the, most of the investment will tell its not going to pass through. You have to admit it.

Richard J. Diemer, Jr. - Senior Vice President and Chief Financial Officer

Yes, not to add there is a cobalt nickels probably in order 15 million and that's included in the past year.

Mark C. Rohr – President and Chief Executive Officer

Okay so let me revise this, the numbers about half [inaudible] that we have to fight for.

Kevin Mccarthy – Banc of America Securities

Got you. In Fine Chemicals you mentioned the low bromine operating rate there being about \$0.02 headwind chime. I think you also mentioned in the text of the press release revenue from foreign chemistry services. Can you elaborate a little bit on the trends there and what the future looks like?

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

Yes, Kevin last quarter we had a large and approximate order go out for a potential new migraine drug. So that was a nice a tailwind for us in the second quarter. We also roll in a lot of our ag intermediates into our fine chemistry services business. And that tends to be, that particular business tends to be a fourth quarter through first quarter driver for us because we're building up for our customer inventory for the upcoming planning season.

So that tends to be less of a driver in third quarter; second and third quarters and move on the fourth, three of the first quarters in the following year. But generally we're getting a I think of lot of exciting, new opportunities. I know you're relatively hungry to understand those better but just because of the

proprietary and confidential nature we keep going into a lot of those details but there are some, I think very unique opportunities in the active pharmaceutical range of products that next year if they come to fruition could be quite exciting for us.

Kevin Mccarthy – Banc of America Securities

Your custom synthesis increased still running north of 50?

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

Yes, they sure are Kevin, very strong.

Kevin Mccarthy – Banc of America Securities

And lastly, any change in the elemental bromine prices?

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

Well we've been studying that because the raw material and energy concerns are out there and chlorine continues to go up in pricing and so we're studying that as we speak.

Kevin Mccarthy – Banc of America Securities

Okay, thank you very much.

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

You're welcome.

Operator

Your next question comes from the line of Steven Schwartz from First, please proceed.

Steven Schwartz – First Analysis Securities Corp.

Hi. Good morning. In the electronics with Polymer Additives one supplier just this morning announced really strong results in the quarter but then it's like the sentiments disappointed and they gave kind of a, down outlook possibility on the fourth quarter. Is there any way you can help us understand exactly what part of electronics you are more strongly tied to?

John Steitz - Executive Vice President & COO

Well we tend to be, this is John Steitz, Steven. We're the broadest supplier in the industry, so there are a lot of touch points for us. There's industrial and home construction, there's automotive in the electronics area there is the print circuit board market or small buying electronics and mobile phones. There is small connectors that our brominated polystyrene products plays into, high temperature nylon, pretty good picture of the end markets around the globe.

Steven Schwartz – First Analysis Securities Corp.

Okay alright. Thank you, that helps. Moving into catalysts with the price increase on SEC, is there anyway you can help us understand what the potential impact of that might be in 2008. And I guess ideally what I'd like to know is what percentage of your business is placing below \$4100 and by how much and I realize you may not be able to give all those details but and maybe you get an idea of what I am interested in?

James Shield – Deutsche Bank

Yes I can get a pretty good idea of what you're interest today and it's a difficult question to answer because the next in that range of products is fairly dramatic depending on and the application. But I can tell you that pricing year-over-year is up about 20% and there has been a lot of discipline in the market place. Hope to achieve that going forward, you have seen the announcement we have made that's in the range of \$200 a ton. Unfortunately we are faced with tremendous raw material escalation in that business as well. I mentioned, Mark and I both mentioned the ATH raw material as going up. That's based on aluminum and that's going up dramatically. And there are others, are China is going up dramatically and the related transportation cost to get these product shift around the global is going up dramatically as well. So, we are hoping some margin expansion but it's very difficult in those environment especially when you think of \$90 barrel oil and the ramifications of that.

Steven Schwartz – First Analysis Securities Corp.

Okay, great, thank you.

John M. Steitz - Executive Vice President and Chief Operating Officer

Okay.

Operator

The next question comes from the line of Mike Sison from KeyBanc, please proceed.

Michael Sison – KeyBanc Capital Markets

Hello.

John M. Steitz - Executive Vice President and Chief Operating Officer

Hi.

Richard J. Diemer, Jr. - Senior Vice President and Chief Financial Officer

Hi.

Michael Sison – KeyBanc Capital Markets

On HPC you talked about the expansion coming on screen congrats. How is that ramping up in terms of orders for next year and can you give us a little bit of color on that you effect and sort of the fill right new plant will be?

Richard J Diemer, Jr. – Senior Vice President and CFO

Yes Mike. You know we are going hard now. We have been going hard this year as we have been sold out turning the construction phases this plant.

Michael Sison – KeyBanc Capital Markets

The base, HPC catalysts business has been sold out.

Richard J. Diemer, Jr. – Senior Vice President and CFO

Yes.

Michael Sison – KeyBanc Capital Markets

Okay. So that sold on out that's means we are ramping up capacity now anticipation of good oil and your base business in FY08?

Richard J. Diemer, Jr. - Senior Vice President and Chief Financial Officer

That's right. So the, as we mentioned kind of end tax the fourth quarter sequentially in HPC looks pretty strong, the first quarter of FY08 looks very strong and will probably be a record quarter for us. So we needed to be that plant up and running quickly to help us meet the growing demand in the first quarter and beyond. So, we are hopeful that this plant will be sold out at some point towards the end of the back half of FY09 and so the opportunities globally are coming in a very strong phase.

Michael Sison – KeyBanc Capital Markets

And in terms of other rates right now and gladly you are going to get more visibility as the first half of FY08 comes to operation, is the HPC expansion partly 20% sold out, 30%, 50%?

Richard J. Diemer, Jr. - Senior Vice President and Chief Financial Officer

I think it will be in the 40% to 50% range in the first year and the second half of FY09 would ramp up that second 50% of that capacity.

Michael Sison – KeyBanc Capital Markets

And if the demand is stronger is it possible to have more of that sold out in FY08 or is it sort of, you need big order then that is probably the best case at this point?

Richard J. Diemer, Jr. - Senior Vice President and Chief Financial Officer

Well ideally yes, I mean if the FY08 demand continues to build momentum through the course of FY08, yes, will keep that new plan running as far as we can.

Michael Sison – KeyBanc Capital Markets

Keep that running. And in the fourth quarter of FY06 HP, catalyst segment rather down 24%, so you sort of had pretty easy comparisons going on in the fourth quarter of FY07. So should the volume drop in the fourth quarter and catalysts be pretty pronounced based on what you said?

Richard J. Diemer, Jr. - Senior Vice President and Chief Financial Officer

Compared to the fourth quarter of FY06, yes I think it's in the 15% to 20% range and it's just correctional.

Michael Sison – KeyBanc Capital Markets

Okay great and just switching gears a little bit on a, I want to [inaudible] but the impact in profitability per math is 2% or 3% on margin based on both the shut down, both of my math would I confirm 50%-50%. So that 15% level Polymer additives is running at but after the rate you need to get Arkansas back to get back to 15 just to get back to that 70-80?

Richard J. Diemer, Jr. - Senior Vice President and Chief Financial Officer

Yes again directionally I'd say that's the order negative we are talking about.

Michael Sison – KeyBanc Capital Markets

Right and anything above that you said to get further improvements on that?

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

That's correct.

Michael Sison – KeyBanc Capital Markets

And then mine on Fine Chemicals, you know when you started taking a look at the back log and you want to think the fine chemistry business is sort of known for its, sort of its running new projects. How does that back log of new projects will look as we are heading to 2008?

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

Yes it feels really good, there has been a couple of unique opportunities that we are filling couple of our plant sites and one is actually counted in the home and defense area and the other is Ag area. Very profitable and very profitable stream and new products. We are looking really bullish into next year. And there is a couple of opportunities in the Pharma sector that are really exciting that we're not building into our financial planning but if they happen could really take us up a notch.

Michael Sison – KeyBanc Capital Markets

And lastly brominated pricing and fine chemicals is that continue to go up?

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

It's been, I'd say relatively flat here the last quarter or so. As we enter in January the late, Mike we're looking at some, you know more raw material cost pressure. And so, as I mentioned earlier we're analyzing how we react to that right now.

Michael Sison – KeyBanc Capital Markets

Okay, great. Thank you.

Operator

Your next question comes from the line of Dmitry Silversteyn with Longbow Research, please proceed.

Dmitry Silversteyn – Longbow Research

Good morning, a couple of questions if I may, a lot of them have already been answered. You talked about raising prices in SEC catalyst about 15%, your latest price increase to \$3100 a ton. Given all of the cost offset that you've had on raw materials transportation are we likely to see additional price increases in FY08 and kind of what is your longer term outlook for this business as far as pricing is concerned.

Mark C. Rohr – President and Chief Executive Officer

Well we're still not you know at re-investment economics and the long term forecasts, I mean over a multi year period are for a lot of volume growth here. And we don't believe right now that the economics justify know any signified investments. So, we're working hard to get the economics right. So, I think we've got to be very nimble at how we address this going forward. And I think that's particularly true in FY08.

We've got to be in a position to continue to file against the critical raw material for this industry, obviously and as we mentioned we're going to continue to drive value through new technology and products and really solve problems in the refining sector. We're working hard on that. But to say, you know we're finished on pricing would, I'd be really misdirecting you there. And I if we've got to react to the raw material pressures and energy pressures and also provide products that really meet our growing slate of difficult problems in this market place.

Dmitry Silversteyn – Longbow Research

So to kind of take this a step further, at what point in time or when would you need to have capacity expansion at least beginning to meet the projected demand and I know we're talking heading to do something with capacity in 2008 or 2009 or is it further out? I mean how much time do you have to get your economics in order before you really start jeopardizing your business by not just you but other players in the business.

Mark C. Rohr – President & Chief Executive Officer

Yes, it's further out than 2008-2009. It's in that range, it's 3 years out. So, I think we've got to be very thoughtful in how we approach that.

Dmitry Silversteyn – Longbow Research

Okay so you got a couple of more years of price increases, another way looking at it.

Mark C. Rohr – President and Chief Executive Officer

No, we're going to keep continuing target generate value and earn our way here.

Dmitry Silversteyn – Longbow Research

Very good. Let me follow up on the fine chemicals business value you announced that price increases for the again I think earlier in the third quarter. Can you give us an update on how that's going and how successful your price increase from where it should have been?

Mark C. Rohr – President and Chief Executive Officer

Yeah. Pricing year-over-year is up in the double-digit range, but Dmitry we also have in this whole chain of producing Ibuprofen needs a lot of organics and use organics like Isobutylene and Toluene a lot of products like that are used in our process. So, they are very just inflationary because of the petrochemical base for that. So margin overall has hung in there we are starting to see some increased demand in our Ibuprofen business we feel good about that and we feel especially good about the quality that we bring especially compared to imported products around the world and the concerns around importing the raw materials from China and Indian places like that. So, we are pushing hard on that, so, we've got a good product but I'd have to say that in our fine chemicals sector again, Ibuprofen is one product of a fairly large portfolio and its newer even close to 5% to 10% of our overall profitability in fine chemicals now. So it's a good seller product as far as the overall portfolio.

Dmitry Silversteyn – Longbow Research

I got it. Thanks, thanks for putting that respective and I have one final question, on polymer additives particularly the petrobromine and brominated in general. My understanding is that the European reach program, this is one of the first chemicals that being examined. The year early food bank and harbor process is going where you are in getting this product, so to reach the process in Europe and

do you see any risk to continue with volume growth or maybe with acceptance of this product in the region?

Mark C. Rohr – President and Chief Executive Officer

Yes, above plus or products you have to go through reach and its going to be a far show early on, a part of that assessment. The preliminary results we have and tests we have done and others have done is that we think these products for the most part can go through reach without difficulty. There are one or two exceptions out there where I think the potential toxicity of the model QO [ph] is the word upon the environment is such that if we have to mitigate real's got to move to different product. So we finally is not a real is frankly is a right thing to do to test these products to make sure they are okay. There has been some concern right of bromine broadly in the use of bromine broadly. You have a lot of initiatives underway to manage that well. So there is a quite of public revenue and I think we can do that successfully. If we can't do it successfully as you end this decade and go into the next you can fix some follow-up on volume.

Dmitry Silversteyn – Longbow Research

Okay. Alright, thank you very much.

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

Alright, pleased to meet you.

Operator

Your next question comes from the line of Edward Yang from CIBC, please proceed.

Edward Yang - CIBC

Thank you, good morning.

Unidentified Company Representative

Good morning Ed.

Edward Yang - CIBC

On Mark you've mentioned fourth quarter it show modest sequential growth, was that for revenue or EPS?

Mark C. Rohr – President and Chief Executive Officer

I only comment on EPS, near term of that, so, on the revenue basis, we shift this modest growth.

Edward Yang - CIBC

Okay, thank you. And on polymer additive, let's is understand the acceleration and improvements from August, September, October to November, but to get a better sense of the velocity and the slow pose on potential year-over-year improvement in 2008, John mentioned the 2005. I think at that time, in the third quarter of FY05 your permanent added volumes was down 7% and a year later they were up a 11%. And like to get a better feel fiscal, on if things play as we did in the FY05, Fy06 playbook, what sort of volume year-over-year volume growth recovery we should seen in FY08 for polymer additives?

Mark C. Rohr – President and Chief Executive Officer

Yes, we are still cautiously optimistic as I said and I am hopeful we can get; I don't think its going to be as dramatic as a 11% but somewhere in the high single digits I think is possible as we rebound lot of this downturn on volumes.

Edward Yang - CIBC

Okay. And you mentioned the strong outlook for Catalyst for 2008 and I think John was trying to back into a volume growth number for 2008 and into Q&A. And would you have there put forward kind of range in terms of what we should expect to see in terms of HPC volume growth for 2008?

Mark C. Rohr – President and Chief Executive Officer

There I think we got to mention what the velocity addition was probably the HPC plan and so if you look at that as 20% or 25% is that we are saying is that we expect for the year to be lot for to the year on annualized kind of basis, so you take that one credit a month and a half, so 10% to 12% on HPC volume growth is kind of the thing that we work on part to look.

Edward Yang – CIBC

Alright, thank you. And lastly on fine chemicals, the long-term margins for that business? And something that you target in the 20% range it's been moving around but?

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

That's 20% we. I can see quarters where we can get peaks like that because we have this kind of third, second quarter where everything jammed up and kind of nice orders out and also all ran well and buyers were relatively robust. So I can see peaks like that but to say that, that would be sustainable I think it's going to take a number of years for us to get there at level.

We are at a process of our planning programs for a way through 2010. Right now we would be solidifying these targets as I have promised many of you by the end of the year and opportunity turn year so we are going to target for margin improvement. And fine chemicals we feel good about that and to say 20% over the next 18 months is too ambitious for us business right now.

Edward Yang - CIBC

Okay, thank you.

Operator

Your next question comes from the line of Doug Shaw from UBS. Please proceed.

Chris Shaw – UBS

Chris Shaw, that's alright. How you guys doing? Just a follow up I guess on the, as I was saying would you, it seems some of the bunch of marginal clients trying to have focus on the inventory reduction, would you expect the margin to be back up or sequentially up in 4Q?

John M. Steitz - Executive Vice President and Chief Operating Officer

Yes we are working hard to do that Chris, we had some issues that we had to deal with in the third quarter and we have the, we have got the some of these agna [ph] immediates that are picking back up in the fourth quarter. So that will help us. I think there is no way it would be 20% but I think it will be better than 15 in that 16 plus range.

Chris Shaw – UBS

Okay, and then, just curious, you're talking about the FCC business not being worth, we are investigating in it right now but is there any of the competitors out there adding expansion right now for the growth that's coming up?

John M. Steitz - Executive Vice President and Chief Operating Officer

You know I think there is a difference between expansion and de-bottle necking and I think there has been some degree of de-bottle necking and some degree of may be consolidation some manufacturing to a degree but major expansion will be in major investment for this market and that's why I think that has to be done in a very thoughtful manner so it could be several \$200 million to \$300 million investment depending on the size and sculpture of the manufacturing plan.

Chris Shaw – UBS

Except the size you don't know how you're planning to do that yet?

John M. Steitz - Executive Vice President and Chief Operating Officer

No.

Chris Shaw – UBS

Not a major one but I think VSF [ph] is got an economic expansion underway in Georgia.

Chris Shaw – UBS

Oh okay. And then finally what, you've got about \$100 million in cash what are your plans for cash and forget the priorities?

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

Our priority is then to invest internally. We've grown CapEx a little bit over the last couple of years. We've invested in R&D. We've increased our dividend double digit this year and once we get our outlook set I hope to be able to do that again so, increasing returns that way. I think I'm probably slightly sub-optimal on debt cap right now although I have cash available and we have not hesitated to buy back their stocks should that look to be a good investment. So, that's another alternative, another way to return from the shareholders.

Chris Shaw – UBS

And are you still looking at [inaudible] 2.08 plus?

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

We're only looking at M&A that's the case and as it's been a couple of quarters it's I think more of a seller's than a buyers market but we're always looking to grow that way also.

Chris Shaw – UBS

Okay great, thanks guys.

Operator

Your next question comes from the line of Guy Barrel from [inaudible], please proceed.

Unidentified Analyst

Hi guys. I just want to go back to SEC catalysts for a second and you almost answered my question few callers back when you talked about discipline in the industry. But I was wondering if you could give a little bit more detail as to what, to how your competitors have reacted or reacting to the slicing actions that you have taken in FCC's or I guess in how you expect them to respond to that?

John Steitz - Executive Vice President & COO

Well I think we're, my belief is since we're all under the same raw material pressure. The, a lot of common ingredients from ATH, silicates, rare earths out of China; all these raw materials are going up dramatically. And so, my belief is we were all under similar cost type pressures. So, therefore we've been forced to announce this price increase and we're trying to implement it through the course of next year. And we've been successful in doing that over the last 18 months. So I hope that our customer base will continue to understand the position we're in and continue to be, to work with us to get these prices up.

Unidentified Analyst

Okay so do these refineries have for the most part, taking in stride or when do you expect to, when do you expect to or at what prices do you expect to push back on that?

John Steitz - Executive Vice President & COO

Well I mean there is always purchasing organizations are obligated to do their job and there is always lot of push back. So, we just have to continue to try drive the importance of value and try to really focus on solving some difficult technical challenges, the biggest technical challenges the heavier, the heavier crucially [ph] that got to be utilized in the worldwide final market today and as you see catalyst can really help solve that problem.

Unidentified Analyst

And just lastly are you seeing any better I guess there is active, are you seeing other than do anything irrational or try to grow out market share on the yields of your pricing action?

John M. Steitz - Executive Vice President and Chief Operating Officer

Well its hard to isolate individual situation and say it there is a trend there, there is always going to be situations that come up and but generally there has been pretty reasonable support for this.

Unidentified Analyst

Okay, thanks very much. You are welcome.

Operator

Your next question comes from the line of Adela Marianna from SAC Capital, please proceed.

Adela Marianna – SAC Capital

As first take my question two quick ones, a part of me. First one, and I know you guys don't give specifics but when you talked about the earnings in the second half of the year in quarter call that's what being flat in the first half, which is working through some of the currents you guys talked about earlier I come out with the fourth quarter possibly being the biggest quarter of the year in terms of earnings. Am I actually correct there or?

Mark C. Rohr – President and Chief Executive Officer

That's I don't know how you do the calculus for the but.

Adela Marianna – SAC Capital

I can just walk you through the I think essentially you talked about finalizing and sequentially you talked about the HPC catalyst for all getting better in the fourth quarter and then move on from there and then fine chemicals from receiving that you get a slight improvement in that in the month?

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

And then you have the tax rates go up to a more normalized 23.2%, so that will offset some of those banks. So it will cover probably be we execute roll out it could end up that way and if we done secure roll out, maybe so, I am getting close to giving guidance all that is required.

Adela Marianna – SAC Capital

Fair enough and then just a quick follow up on that math that you did on yours but, am I doing the math correct; if I add up the \$0.05 cover and then value added the \$0.02 and fine chemicals and the penny for June and July you essentially out of that sense we are on time causing this quarter offsetting the \$0.06 cost benefit, is that how you think about it?

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

Adel you are worried I think you got the math right.

Adela Marianna – SAC Capital

Okay, correct. Then finally just one last question in terms of thinking about catalyst on I guess some color in terms HPC volumes and first try and what else the other to the revenue going forward for the segment of the whole we are taking 15% of the CC price over the Polymer catalysts and not just model CC part of the good year of pricing. Is 20% revenue growth staff on for that segment over all a verified number or I am not kind of [inaudible] number but I am just going to go [inaudible] kind of completely incorrect or [inaudible] excellent.

Mark C. Rohr – President and Chief Executive Officer

Adela I know you're not going to try to nail us down for the number but you get pretty close to that .

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

Actually I don't mind [inaudible].

John M. Steitz - Executive Vice President and Chief Operating Officer

You know I think 20 is probably a higher number, 15 may be more in line with what, how we do work after capitals. But again as we end this year and communicate here and year end we will communicate what to expect for the next year.

Mark C. Rohr – President and Chief Executive Officer

You should know that mail plays a pretty big role in that and we saw deflation for instance in [inaudible] we could pull \$60 million of that top line running, thinking about it so you know you just

have to be careful in there how you use revenue. What you expect revenue from catalyst, there is so much of metal in fact there.

Adela Marianna – SAC Capital

Okay and then finally just one last question. Just thinking about the capital structure and the kind of how underway you are doing is it at some point that the stock price makes you get more urged to doing something more in the buy back or I mean what's the right way to think about how long you guys will let your balance to stay [inaudible] or doing something more aggressive?

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

I think my priorities are to continue the growth further may they be organic or by doing [inaudible] that's the top priority. But in the absence of those types of opportunities we had now to pay this buy back stock in the roll 40's. We are cheaper. so but that kind where my head is and I think even half of next year it's a good investment at that part.

Adela Marianna – SAC Capital

Fair enough, thanks guys.

Operator

Your next question comes from a line of [inaudible] from [inaudible] investment. Please proceed.

Mark C. Rohr – President and Chief Executive Officer

Hopefully that will be last for off set.

Unidentified Analyst

Good morning. With start off with the HPC facility in Daytona could you describe what's entailed in bringing up in this facility?

Mark C. Rohr – President and Chief Executive Officer

Yes sure. You know once mechanically you have to go through where your series of dummy rounds if you will. Water or not a material but you really wanted individual sections to verify if it's okay. Do all your you do the double check [inaudible] you make sure that's it is all clean and crisp and then there is a series of travels that will run through it to produce commercial qualities with small volumes we produce commercial qualities.

Then we put these batteries in the series of test, to validate if its good quality piece of standards that the industry expect to run. So that's the process of underway as we speak today. As we get to examine this year we think we're trying to make approving commercial rounds or product forms. So we're confident that auto, right know have you mechanically completed the process beginning the test initiatives necessary to round up your spaces.

John M. Steitz - Executive Vice President and Chief Operating Officer

Yes, the team is, the team has done a Herculean effort to mange this in a safe normally sound way. Not even the accidents. And sell of the equipments in good fashion so if we don't make any mistakes we don't. So those a lot of activity out of the way. It gets more actually [inaudible].

Unidentified Analyst

In the past moving to margins you have described that the consultment level you would like to see your businesses in 15%, 16%, 17%, things change depending on the term we're talking about. How does raw material inflation as you look at FY08 and likely operating rate affect your confidence and those segment margins?

Mark C. Rohr – President and Chief Executive Officer

We are talking, no apostrophes as comparison, things are going to be 15% greater, seventh margin, income margin and of course for you guys as we in this year and start next talk about that, future with our targets as we establish 50% benchmark. We watch our program before the apples to apples compares a \$10 per change in mildly \$60 billion, \$70 billion, \$80 billion; I mean \$10 projects \$60

billion, \$70 billion, \$80 billion. I mean that kind of impact on margins in a [inaudible]. The flip side is we've got a lot of equation that we are expecting at little bit of high rate, our jobs got a whole time [inaudible]? So there is an angle that is kind of numbered, code number would expect the be able to keep those kind of numbers as we go forward.

Unidentified Analyst

Rich how do you suppose you FY08 affected tax rate assumption would compare to the average you foresee for FY07?

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

Given increase in profitability that we anticipate to have next year and the fact that the bulk of that increase will be in tax restrictions and now we have the tax rate with the three high 20 pipe rate. We kind of, to a 20, 24 to 24.50 range kind of where I'm looking at tax rate per down next year.

Unidentified Analyst

Thank you very much.

Operator

Your next question comes from the line of Andrew [inaudible] from [inaudible] Capital, please proceed.

Unidentified Analyst

Hi, another good year catalyst margins that climbed sequentially after a strong 3Q FY06. I was wondering whether that was entirely type of volumes is that a normal trend you expect to repeat in the next few quarters?

John M. Steitz - Executive Vice President and Chief Operating Officer

Well we improved when we look in the margins and catalyst Andrew we improved the JVs that support that business and so year-over-year, if you look at third quarter of FY06 we had, my numbers indicate 17.6% second margin and went to just under 19. So, and then sequentially we saw it go from 15.6 to just under 19. So we feel the teams have done a really good job there and if we need to clarify some numbers with you we would be happy to do that but really the cost of the board the revenue is we are down slightly in catalyst but that's primarily due to a very strong demand in the third quarter of FY06 as some new regulations kicked in prior to the fourth quarter of FY06, we saw a big step up in our demand for HPC catalyst and very strong mix of last year in the third quarter.

Unidentified Analyst

Okay, I guess, I was looking on it before the JV interest?

John M. Steitz - Executive Vice President and Chief Operating Officer

Yes, the primary issue there would be the HPC impact we had some very strong very robust sulphur reducing catalyst systems shipped in the third quarter of FY06 to prepare for this new regulations kicking out.

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

Andrew this is Rich. You only look at the operating before JVs and even before minority interest you can be discarded view of how we different views on how we run the business. So it's really important the way we run the business as our JV income in but also you take away the minority interest because we don't have kind of partners' interest and some of the business up and consolidate.

Unidentified Analyst

Okay. Well maybe look at the numbers in that range and sum that of.

Richard J. Diemer, Jr. – Senior Vice President and Chief Financial Officer

Okay.

Unidentified Analyst

Thank you.

John M. Steitz - Executive Vice President and Chief Operating Officer

You are welcome.

Operator

At this time, there are no further questions in the queue; I will now like to turn the call back over to Sandra Rodriguez, Director of Investor Relations.

Sandra Rodriguez - Director of Investor Relations

Thank you. I would like to thank everyone for participating on the call today. If there are any further questions, you can contact me at the number indicated on the press release. Have a great day everyone.

Operator

Thank you for your participation in today's conference. This concludes the participation you may now disconnect. Good day.

Copyright policy: All transcripts on this site are copyright Seeking Alpha. However, we view them as an important resource for bloggers and journalists, and are excited to contribute to the democratization of financial information on the Internet. (Until now investors have had to pay thousands of dollars in subscription fees for transcripts.) So our reproduction policy is as follows: **You may quote up to 400 words of any transcript on the condition that you attribute the transcript to Seeking Alpha and either link to the original transcript or to www.SeekingAlpha.com.** All other use is prohibited.

THE INFORMATION CONTAINED HERE IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL, CONFERENCE PRESENTATION OR OTHER AUDIO PRESENTATION, AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE AUDIO PRESENTATIONS. IN NO WAY DOES SEEKING ALPHA ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S AUDIO PRESENTATION ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

Copyright © 2008 CNET Networks, Inc. All Rights Reserved.